

Message Text

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ACTION EB-08

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-03
INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 ITC-01 L-03 H-01 DODE-00 PA-01 DOE-11
SOE-02 ABF-01 FS-01 /105 W
-----019815 171600Z /46

R 170410Z MAR 78
FM AMEMBASSY BANGKOK
TO SECSTATE WASHDC 1795
INFO AMCONSUL HONG KONG
AMEMBASSY JAKARTA
AMEMBASSY KUALA LUMPUR
AMEMBASSY MANILA
AMEMBASSY SINGAPORE
AMEMBASSY TOKYO

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E.O. 11652: N/A
TAGS: EFIN, ETRD, TH
SUBJ: AMERICAN BANKERS APPROVE RTG MONETARY AND TARRIFF
MEASURES

REF: BANGKOK 7388, BANGKOK 7228

1. EMBOFF HAS DISCUSSED RTG DECISION TO UNPEG BAHT FROM DOLLAR
WITH BANKERS AND FOUND THEY ARE EXPERIENCING NO PARTICULAR
DIFFICULTIES AND UNANIMOUSLY APPLAUD THE RTG DECISION TO
PROTECT THE BAHT AGAINST FUTURE UNCERTAIN FLUCTUATIONS IN
THE VALUE OF THE DOLLAR. SOME SEE LOCAL FINANCIAL SITUATION
AS GROWING MORE INTERESTING AND POSSIBLY MORE PROFITABLE FOR
AMERICAN BANKS.

2. TO DATE THERE HAS BEEN ABSOULTELY NO CHANGE IN THE
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DOLLAR-BAHT EXCHANGE RATES, AND THE WORD IS THERE WILL BE
NONE FOR AT LEAST 90 DAYS. EVEN AFTER THAT PERIOD ANY CHANGES
ARE LIKELY TO BE SLOW AND CAUTIOUS WHILE BANK OF THAILAND
PERSONNEL LEARN TO MANAGE A FLEXIBLE EXCHANGE SYSTEM.
UNLESS THERE ARE PRECIPITOUS CHANGES IN FUTURE DOLLAR
EXCHANGE RATES, THE BAHT WILL VERY LIKELY FOLLOW THE
COURSE OF THE DOLLAR WIHIN A NARROW BAND.

3. IN ADDITION, THERE HAVE BEEN NO CHANGES IN BAHT-THIRD COUNTRY EXCHANGE RATES EITHER BEFORE OR SINCE THE ANNOUNCEMENT. ACCORDING TO A BANK OF THAILAND SOURCE, THE BANK'S EXCHANGE EQUILIZATION FUND IS COMPOSED OF DOLLARS ONLY, AND FOR THE REMAINDER OF THIS 90-DAY PERIOD EXCHANGES FOR THIRD COUNTRY CURRENCIES WILL BE QUOTED IN DOLLARS.

4. THE BANKERS GENERALLY APPROVED OF THE LINKED RTG MEASURES OF UNTYING THE BAHT AND INCREASING TARIFFS ON IMPORTED LUXURY GOODS. THIS WAS SEEN AS A POSITIVE EFFORT ON PART OF RTG TO PROTECT THAILAND'S BALANCE OF PAYMENT POSITION AND HENCE ITS CREDITWORTHINESS. ALTHOUGH THE NEW MEASURES CREATE AN ELEMENT OF UNCERTAINTY WITH REGARD TO REPAYING FUTURE LOANS, THEY WILL ALSO OFFER NEW OPPORTUNITIES FOR ENHANCING PROFITS. UP TO NOW, LOCALLY BASED MULTINATIONALS HAVE PREFERRED TAKING BAHT LOANS, BUT IN NEW SITUATION IT IS FORESEEN THAT THEY WILL INCREASINGLY TURN TO DOLLAR LOANS.

5. ON THE OTHER HAND, THERE IS CONCERN AS TO WHAT THE NEW TARIFFS AND TAXES ON GASOLINE WILL DO TO THE LOCAL RATE OF INFLATION. IT HAD ALREADY BEEN ANTICIPATED THAT INFLATION RATE WOULD BE 8-10 PERCENT THIS YEAR. ALTHOUGH THE RTG PROJECTED ONLY A ONE PERCENT INCREASE LIMITED OFFICIAL USE

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IN THE INFLATION RATE AS A RESULT OF THESE MEASURES, PRIVATE SURVEYS ARE ALREADY INDICATING A 5-10 PERCENT SURGE IN THE RATE OF INFLATION. A HIGH RATE OF INFLATION WOULD ALMOST CERTAINLY PROMPT CONCERN AMONG WAGE-EARNERS AND LEAD TO DEMANDS BY LABOR FOR REMEDIAL ACTION BY THE RTG. PRIME MINISTER KRIANGSAK WILL PROBABLY ATTEMPT TO ALLEVIATE WORKER DISCONTENT THROUGH SELECTIVE RAISING OF THE MINIMUM WAGE AND ANTI-SMUGGLING AND ANTI-PROFITEERING MEASURES.

6. EVEN THOUGH THERE ARE NO IMMEDIATE PROSPECTS FOR A CHANGE IN THE BAHT-DOLLAR EXCHANGE RATES, ONE BANKER STILL PREDICTS A FIVE PERCENT APPRECIATION OF THE BAHT VIS-A-VIS THE DOLLAR SOMETIME IN THE FUTURE UNLESS, OF COURSE, THE DOLLAR RECOVERS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BANKERS, TARIFFS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 17 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BANGKO08117
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780119-0596
Format: TEL
From: BANGKOK
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780357/aaaabvte.tel
Line Count: 111
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 99a417c5-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 BANGKOK 7388, 78 BANGKOK 7228
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3297522
Secure: OPEN
Status: NATIVE
Subject: AMERICAN BANKERS APPROVE RTG MONETARY AND TARRIFF MEASURES
TAGS: EFIN, ETRD, TH
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/99a417c5-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014